**U.S. Department of Energy
Office of Inspector General**

**Alaska Power Administration Federal Power Program
Financial Statements
With Supplementary Information
September 30, 1994 and September 30, 1993
With Auditors' Reports Thereon**

MASTER

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ALASKA POWER ADMINISTRATION FEDERAL POWER PROGRAM
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 1994 AND SEPTEMBER 30, 1993
WITH AUDITORS' REPORTS THEREON

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Overview

MISSION

The Alaska Power Administration (APA) will continue to encourage economic and industrial development in Alaska, and repay the taxpayers' investment by providing and marketing reliable hydroelectric power generated at its facilities. We will market the power at the lowest rates possible, and operate and maintain our generation and transmission facilities in a safe and environmentally-sensitive manner consistent with sound business principles.

FISCAL YEAR 1994 ACCOMPLISHMENTS

- **APA operated and maintained two hydroelectric projects that includes five generator units, three power tunnels and penstocks, over 88 miles of transmission line through remote Alaskan terrain, four substations, dormitory, airstrip, a boat and barge basin, and other supporting maintenance facilities. Highlights include:**
 - **An option was exercised in the amount of \$314,574 for the second replacement transformer at Eklutna.**
 - **The Snettisham Project experienced four unexplained line outages in a seven day period during July on the Snettisham-Thane 138 kV line. These outages were similar to the outages APA experienced last year. Engineers and technicians from Western Area Power Administration and the Alaska Electric Light & Power Company have been assisting APA in trying to determine the cause of these outages. Staged fault tests were conducted in May to help calibrate monitoring and relaying equipment that had been installed on the line. After the outages in July, anti-perching devices were installed on two towers and additional monitoring equipment was installed. APA has not experienced a similar fault ("mystery outage") since the installation of this equipment.**
 - **In May, while performing staged fault tests to help resolve the "mystery outage" problem, APA became aware of a landslide that had reached structure 12/2. Structure 12/2 consisted of three independent guyed aluminum towers, one for each of the three transmission line conductors. Further investigations revealed that there were hundreds of tons of fractured rock and timber up hill of 12/2. Local geologists felt there was a high probability that the next freeze thaw cycle would bring most of this material down through the 12/2 site. The structure, like most of the Snettisham Line, is located in a remote mountainous area that can only be reached via helicopters. APA chartered its first full fledged Total Quality Management (TQM) team to tackle this problem. The solution they came up with and implemented was to relocate structure 12/2 and increase the height of an adjacent structure before the snow started, less than five months away. By the end of FY 1994, the sites had been prepared, foundations poured, and the replacement towers were ready for installation. The actual installation of the replacement towers will take place in October 1994, just before the first snow fall, hopefully.**

-
- Maintained an availability rate of 99.46% for generation and 99.97% for transmission capacity.
 - There were 70,000 plus hours worked without any serious accidents, lost time-reportable injury, or fatality.
 - No environmental or safety violations were identified at APA facilities by regulatory authorities, and in-house comprehensive safety and environmental inspections resulted in no major identifiable problems.
 - As in past years, APA operations are not required to operate under air and water quality permit requirements. Hazardous discharges to the air and water are either minimal (non-regulated) or non-existent. The promotion of pollution prevention is a highlight of APA's environmental quality program. APA's facilities (Snettisham and Eklutna) are operated as conditionally exempt small quantity hazardous waste generators, which are exempt from most requirements. In addition, Snettisham operates its solid waste landfill in full compliance with solid waste permit requirements.
 - APA has successfully trained facility staff in a variety of required safety and environmental areas including: hazardous communication, use of personnel protective and hearing protection, confined space entry, oil spill-emergency response, hazardous waste management, and pollution prevention.
 - We have effectively implemented a re-use and recycling program which included the recycling of 19,000 pounds of batteries, office white paper and computer paper, and aluminum.
- The following was completed to build APA into a streamlined, TQM-based professional organization:
 - APA continues its review of existing policies and guidance memorandums for ones that can be rewritten or eliminated to reduce unnecessary administrative burdens.
 - APA has streamlined the organization and increased our employee/supervisor ratio to 10:1.
 - Several areas of authority and/or decision making responsibilities were decentralized from our Headquarters Office and placed at the appropriate operating project offices.

-
- APA chartered four TQM teams during the year that worked on such diverse topics as 12/2 slide problem, new policy for performance and awards program, software and hardware for new financial management system, and Eklutna generator rewind project.
 - APA completed its Strategic Plan and began the implementing process.
 - Eklutna Rate action activities for FY 1994: New rates were approved on an interim basis by the Deputy Secretary of Energy, for a five-year period beginning October 1, 1994. The new rate for firm energy increased 10%, from \$0.017/kWh to \$0.0187/kWh. The rate action has been forwarded to the Federal Energy Regulatory Commission for approval on a final basis.
 - Snettisham Rate action activities for FY 1994: The rate sufficiency study this year disclosed that the Snettisham rates are inadequate to meet all costs. We have notified the Snettisham customers that we are considering a rate increase. The rate sufficiency study shows that a rate of \$0.0348/kWh would be adequate, an 8.4% increase. Public participation in the establishment of the new rate will be conducted according to 10 CFR 903. APA anticipates the new interim rates to be approved by the Deputy Secretary of Energy by May 1, 1995.
 - Encouraged the use of surplus, clean, renewable hydroelectric energy with special dual fuel rates that accounted for 10,687 mWh of incentive sales that returned an additional \$137,000 in revenue to the U.S. Treasury. The fuel oil saved through the "dual fuel" program was 348,000 gallons that was replaced with 9,849 mWh of clean hydro generated electricity. The wood smoke replacement program accounted for the balance of surplus energy marketed at 838 mWh. This program reduced air pollution in problem areas due to wood smoke.
 - APA had another banner year by succeeding in reaching 95% of its procurements awarded to small businesses. 13% of that was awarded to small businesses owned by women.

FUTURE

Eklutna Replacements

The Eklutna powerplant has provided reliable power deliveries for 40 years. APA is in the process of replacing the main power equipment at the plant. We exercised an option in the transformer contract, that was awarded last year, to purchase a second power transformer for the Eklutna Project. Both of the power transformers will be installed during FY 1995.

APA has received an extra \$2,700,000 in FY 1995 funding to award a contract to replace the generator windings and stator cores at the Eklutna Project. A study conducted by the Bureau

of Reclamation (USBR) in FY 1993 showed that the units had reached the end of their useful life and may fail at any time. Restrictions on the operation of the Eklutna units has been in effect for several years, due to the deteriorating condition of the units. APA anticipates that the total cost of replacing the Eklutna units will be \$3,200,000 and on site installation is scheduled to start in FY 1996.

Rate Action and Power Sales Contracts

The current extension to the Eklutna Power Sales contract expires December 31, 1994. Work on a new Power Sales Contract is nearly completed and APA expects to have a new 20 Year Power Sales Contract in place for the Eklutna Project by December 31, 1994. An allocation for surplus energy from the Snettisham Project was granted in FY 1994. The Marketing Plan for this energy requires a contract for the energy to be in place by February 6, 1995. APA expects to have the contract completed by the February deadline. Snettisham firm energy customers were notified that APA is considering a new firm energy rate for the Snettisham Project. The public information and comment forums will be held in FY 1995. APA expects to have the new rates approved by the Deputy Secretary of Energy on an interim basis and submitted to the Federal Energy Regulatory Commission for final approval by May 1, 1995.

Divestiture

A Bill to authorize sale of Alaska Power Administration assets passed the House in the first half of the last Congressional Session and the Senate's version cleared committee, but didn't get to the floor. A new bill will most likely be introduced early in the 104th Congress. The Bill would transfer ownership of the facilities to the State and local utilities, and result in the elimination of the Federal Power Marketing Administration in Alaska.

Management's Discussion and Analysis

RESULTS OF OPERATIONS

In FY 1994, APA had combined project sales and revenues totalling 402.9 million kWh and \$10,205,915 respectively. This was APA's 2nd highest revenue year on record. Receipts exceeded outlays for a net return of \$5,738,307 to the U.S. Treasury.

SALES AND REVENUES BY PROJECT

The Eklutna Project provides roughly 5% of the Anchorage and Matanuska-Susitna Valley area electrical load requirement. Firm power was sold at wholesale for 1.7 cents/kWh. The rate adjustment to 1.87 cents is still among the lowest cost energy available. As such, our customers generally take all the energy that can be produced from water flowing into the Eklutna reservoir. The reservoir began the year above (about 1 foot) its normal operating level. We were anticipating sales of 164 million kWh, the plant's average generation. Actual sales of 166.7 million kWh were realized or approximately 1% above average generation. The reservoir ended the year 1.9 feet below normal indicating the likelihood of slightly less than average generation in FY 1995. Gross Revenues amounted to \$2,835,557 in FY 1994 which is a decrease over the prior year of 2.4%.

The Snettisham Project, fed by the Long Lake and Crater Lake reservoirs, currently provides about 80% of the Juneau area electrical load requirement. Our customer provides the remaining 20% with their own hydro and backup diesel generators. With the addition of the Crater Lake unit in FY 1991, the Snettisham Project has the capacity to meet an increase in the area load of 30%. As such, change in the local area load has a greater impact on sales than a change in the reservoir inflows. Annual sales in FY 1994 were 236.2 million kWh, which helped bring total revenues to a record of \$7,370,357. Revenues were up slightly (0.4%) from the previous year, and sales were also up from that planned by 0.4%. The cooler weather increased the local area heating load which comprises a significant portion of the total area load.

EXPENSES

Combined project operation and maintenance expenses were \$3,647,553; down 1.8% from 1993. Overall, operation and maintenance expenses again averaged just 0.9 cents/kWh which is the same as last year.

Interest expense on the unpaid Federal investment of \$4,859,105 was up slightly in FY 1994. In FY 1994, we capitalized another \$518,163 for additional Corps of Engineers (COE) Crater Lake construction activity and interest during construction through the end of FY 1994. This additional investment will raise the total interest expense again in FY 1995. Interest on the unpaid investment at the Snettisham Project now accounts for over 96.5% of the total agency interest expense; the remaining 3.5% is for unpaid Eklutna Project investment.

DEBT SERVICE

Annual revenues were sufficient to pay annual operation maintenance expenses, 86% of the interest expenses (\$4,271,632 paid, \$587,473 deferred), and provide principal payments of \$2,171,019 to apply against the unpaid Federal investment. The principal payment was up 5.7% over that planned amount to be paid. The increase was due to not deferring any of the Long Lake required principle payment as done in previous years. The principal paid was \$116,235 more than planned resulting in a debt service coverage ratio for FY 1994 of 105.6%. The average debt service coverage ratio for the last five years was 99.8%.

CUMULATIVE FEDERAL INVESTMENT PAID AND UNPAID

REPAYMENT

The total Federal investment for repayment through the end of FY 1994 is \$206.1 million. The investment is up \$0.7 million from the previous year primarily for additional interest and costs transferred from the COE for their work in constructing the Crater Lake addition to the Snettisham Project. Over the life of the Projects, the ratepayers have repaid \$42.5 million in principal, in addition to \$57.5 million in interest and

\$53.6 million for operation and maintenance. The unpaid balance remaining due to the U.S. Treasury is \$165.2 million. On a Project basis, the 40-year-old Eklutna facility has repaid 79% of its investment, and the younger Snettisham facility has repaid 7.5% of its investment.

APA COMBINED PROJECTS NET CASH FLOW TO TREASURY

NET CASH FLOW

The net cash flow to the Treasury Department measures APA's receipts less actual cash outlays for operation and maintenance of the facilities. In FY 1994, APA revenues received exceeded cash outlays by \$5.7 million.

SYSTEM RELIABILITY

The availability rate APA uses as a performance indicator that measures the total number of hours the equipment was in service plus the number of hours it was unavailable due to unscheduled activities. This indicator excludes downtime for regularly-scheduled activities. The indicator was derived by using the National Electric Reliability Council recognized formula for calculating an unweighted Forced Outage Ratio (FOR). The availability rate is the equivalent to subtracting the FOR from a perfect availability of one hundred percent (100%).

APA COMBINED SYSTEMS GENERATION, AVAILABILITY RATE

In FY 1994, the generation and transmission systems maintained an average 99.46% and 99.97% respectively. The generation rate is slightly lower than last year, due to a bearing oil leak in the Crater Lake Unit at Snettisham. Taking early action to correct the landslide problem on the Snettisham line allowed APA to schedule the outage time. This resulted in APA being able to maintain a high availability rate for its transmission systems.

APA COMBINED SYSTEMS TRANSMISSION, AVAILABILITY RATE

Over the past five years APA has been able to maintain an availability rate of over 99% for its transmission systems. The availability rate for APA's generation systems has been over 99% four of the last five years. In FY 1990 the generation availability rate dropped to 98% due to initial problems during the start up of the Crater Lake Unit at Snettisham.

ALASKA POWER ADMINISTRATION FEDERAL POWER PROGRAM
JUNEAU, ALASKA

For the Year Ended September 30, 1994

PART I
Opinion on Financial Statements
and Supplemental Information

Administrator
Alaska Power Administration
United States Department of Energy:

We have audited the combined statements and notes contained in the annual financial statements of the Alaska Power Administration (APA) as of September 30, 1994 and 1993, and for the years then ended. These statements are the responsibility of APA management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audit in accordance with generally accepted *Government Auditing Standards*, (1988 version) issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined statement presentation. We believe our audit provides a reasonable basis for our opinion.

The summary of significant accounting policies included in the note (1) to the combined statements describes the accounting standards used to prepare APA's combined statements.

In our opinion, the combined statements, including the notes to the combined statements, referred to above present fairly, in all material respects, the assets, Federal investment and liabilities of the Alaska Power Administration as of September 30, 1994 and 1993, and the results of its operations, cash flows, and reconciliation from budget to actual expenses for the years then ended on the basis of accounting as described in note (1) to the combined statements.

Our audit was conducted for the purpose of forming an opinion on the combined statements taken as a whole. The information

presented in the Overview and Supplemental Financial and Management Information is not a required part of the combined statements, but is supplementary information required by OMB Bulletin 94-01. We have considered whether this information is materially inconsistent with the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we do not express an opinion on it. Performance information is addressed in our auditors' report on internal control in accordance with OMB Bulletin 93-06.

The combining information is presented for purposes of additional analysis and is not a required part of the combined statements. Such information has been subjected to the auditing procedures applied in the audit of the combined statements and, in our opinion, such information is fairly stated in all material respects in relation to the combined statements taken as a whole.

December 9, 1994

Office of Inspector General

ALASKA POWER ADMINISTRATION
Combined Statement of Assets, Federal Investment and Liabilities
As of September 30, 1994 and 1993

<u>Assets</u>	<u>1994</u>	<u>1993</u>
Utility Plant (notes 3 and 4):		
Plant in Service	\$ 187,072,170	186,324,025
Accumulated Depreciation	(36,133,848)	(33,695,246)
Construction in Process	<u>820,054</u>	<u>0</u>
Net Utility Plant	<u>151,758,376</u>	<u>152,628,779</u>
Current Assets:		
Unexpended Appropriations (note 5)	1,834,335	1,210,844
Accounts Receivable	365,313	841,111
Imprest Fund	<u>7,000</u>	<u>7,000</u>
Total Current Assets	2,206,648	2,058,955
Deferred Interest on Federal Investment, Net of Accumulated Amortization	<u>17,560,521</u>	<u>17,988,826</u>
Total Assets	\$ <u>171,525,545</u> =====	<u>172,676,560</u> =====
<u>Federal Investment and Liabilities</u>		
Federal Investment:		
Investment of U.S. Government (note 4)		
Accumulated Congressional Appropriations	\$ 86,519,638	82,523,388
Interest During Construction	11,066,095	11,051,497
Transfers from Other Federal Agencies	141,460,346	140,942,183
Interest on Federal Investment	<u>76,746,734</u>	<u>71,887,329</u>
Gross Investment of U.S. Government	<u>315,792,813</u>	<u>306,404,397</u>
Funds Returned to U.S. Treasury	(148,222,934)	(138,730,764)
Less Funds Related to CSRS (note 6)	<u>494,778</u>	<u>395,527</u>
	<u>(147,728,156)</u>	<u>(138,335,237)</u>
Net Investment of U.S. Government	168,064,657	168,069,160
Adjustment	(427)	0
Accumulated Net Revenues	<u>3,231,534</u>	<u>4,410,765</u>
Total Federal Investment	171,295,764	172,479,925
Current Liabilities: Accounts Payable and Accrued Liabilities	<u>229,781</u>	<u>196,635</u>
Total Federal Investment and Liabilities	\$ <u>171,525,545</u> =====	<u>172,676,560</u> =====

The accompanying notes are an integral part of these Principal Statements.

ALASKA POWER ADMINISTRATION
Combined Statement of Operations and Changes in Net Position
For the Years Ended September 30, 1994 and 1993

	<u>1994</u>	<u>1993</u>
Revenues (note 2):		
Sales of Electric Power:		
Municipalities	\$ 1,456,336	1,500,307
Rural Cooperatives	1,288,507	1,313,881
Privately Owned Utilities	7,261,350	7,265,065
Other	91,091	58,413
Wheeling	89,060	88,782
Other Operating Revenues	<u>19,571</u>	<u>23,030</u>
Total Revenues	<u>10,205,915</u>	<u>10,249,478</u>
Expenses (note 4):		
Operations and Maintenance	3,647,553	3,715,024
Depreciation and Amortization	2,866,907	2,873,407
Annual Leave Adjustment	<u>17,751</u>	<u>(54,210)</u>
Total Expenses before		
Adjustments and Interest	<u>6,532,211</u>	<u>6,534,221</u>
Adjustments	<u>(6,170)</u>	<u>277,426</u>
Net Revenue before Interest Expense	3,679,874	3,437,831
Interest Expense (note 4)		
Interest on Federal Investment	<u>4,859,105</u>	<u>4,816,707</u>
Net Revenues (expenses)	\$ (1,179,231)	(1,378,876)
	=====	=====
Net Position, Beginning Balance	\$ 4,410,765	5,789,641
Excess (shortage) of Revenues		
Over Total Expenses	<u>(1,179,231)</u>	<u>(1,378,876)</u>
Net Position, Ending Balance	\$ 3,231,534	4,410,765
	=====	=====

The accompanying notes are an integral part of these Principal Statements.

ALASKA POWER ADMINISTRATION
Combined Statement of Cash Flows
For the Years Ended September 30, 1994 and 1993

	<u>1994</u>	<u>1993</u>
Funds Provided by Operating Activities:		
Funds Received from Customers	\$ 10,695,734	10,739,147
Funds Paid for Operations and Maintenance	<u>(3,639,287)</u>	<u>(4,156,628)</u>
Net Funds Provided by Operating Activities	<u>7,056,447</u>	<u>6,582,519</u>
Funds Used In Investing Activities:		
Plant Additions to Utility Plant	(1,568,199)	(5,807,482)
Plant Retirements to Utility Plant	<u>0</u>	<u>277,426</u>
Net Funds Used in Investing Activities	<u>(1,568,199)</u>	<u>(5,530,056)</u>
Funds Provided by (used in) Financing Activities:		
Funds Returned to U.S. Treasury	(9,492,170)	(10,294,999)
Congressional Appropriations	4,010,000	3,689,514
Imprest Fund	0	(7,000)
Transfers to/from Other Agencies	<u>617,413</u>	<u>5,871,066</u>
Net Funds Used in Financing Activities	<u>(4,864,757)</u>	<u>(741,419)</u>
Net Increase/(Decrease) in Funds	623,491	311,044
Fund Balance, Beginning of Year	<u>1,210,844</u>	<u>899,800</u>
Fund Balance, End of Year	\$ 1,834,335	1,210,844
	*****	*****
Reconciliation of Net Revenues (Expenses) to		
Funds Provided by Operating Activities:		
Net Revenue (Loss)	(1,179,231)	(1,378,876)
Interest on Federal Investment	4,859,105	4,816,707
Depreciation & Amortization	2,866,907	2,873,407
Decrease in Accounts Receivable	468,124	489,669
Other Adjustments and Employee Advances	15,127	0
Increase (Decrease) in Accounts Payable	<u>26,415</u>	<u>(218,388)</u>
Net Funds Provided by Operating Activities	\$ 7,056,447	6,582,519
	*****	*****

The accompanying notes are an integral part of these Principal Statements.

ALASKA POWER ADMINISTRATION
Combined Statement from Budget to Actual Expenses
September 30, 1994 and 1993

	<u>Budget</u>		<u>Actual</u>
	<u>Resources</u>	<u>Direct Obligations</u>	<u>Expenses</u>
<u>Fiscal 1994</u>			
CF 01-01 Operations & Maintenance	\$4,165,776	3,789,667	6,532,211
CF 01-04 Emergency Fund	200,000	--	--
	-----	-----	-----
Total	\$4,365,776	3,789,667	6,532,211
	=====	=====	=====
<u>Fiscal 1993</u>			
CF 01-01 Operations & Maintenance	\$3,843,394	3,687,618	6,811,647
CF 01-04 Emergency Fund	200,000	--	--
	-----	-----	-----
Total	\$4,043,394	3,687,618	6,811,647
	=====	=====	=====
<u>Budget Reconciliation</u>		<u>1994</u>	<u>1993</u>
A. Total Expenses		\$6,532,211	6,811,647
B. Add:			
Capital Acquisitions		229,982	48,262
C. Less:			
O&M Expenses from Revenue Billing Adjustments		505,283	442,866
Depreciation and Amortization		2,866,907	2,873,407
Loss on Sale of Fixed Asset		--	277,426
Unfunded Annual Leave Expense		17,751	(54,210)
Accrued Expenses Not Requiring Outlays		--	111,848
Other		(49,269)	(27,211)
		-----	-----
D. Accrued Expenditures, Direct		\$3,421,521	3,235,783
		=====	=====

The accompanying notes are an integral part of these Principal Statements.

ALASKA POWER ADMINISTRATION

Notes to Combined Statements

September 30, 1994 and 1993

(1) Summary of Significant Accounting Policies

Reporting Entity

The Alaska Power Administration (APA) was established in 1967 by the Secretary of Interior to assume the power functions of the Bureau of Reclamation in Alaska. In 1977, the Department of Energy Organization Act transferred the APA from the Department of the Interior to the Department of Energy. Electric power and energy generated by the Projects is required to be disposed of in such a manner as to encourage the most widespread use thereof at the lowest possible rates to customers.

The Eklutna Project, created under the Eklutna Project Act of 1950, as amended, is located near Anchorage, Alaska. Repayment for the original construction costs for the transmission and generating facilities extends for a period of 50 years from the date placed in service (the Repayment Period). Interest on the unpaid portion of these costs shall be charged at 2.5% annually.

The Snettisham Project, created under the 1962 Flood Control Act, as amended, is located near Juneau, Alaska. Snettisham is a staged project whereby the first stage on Long Lake was placed in service in 1975 and the second phase on Crater Lake was placed in service in 1991. The Repayment Period for Long Lake and Crater Lake extends for a period of 60 years and 50 years, respectively, and interest is charged on the unpaid portion at the rate of 3% annually. After the initial ten-year period of operation, the Long Lake phase of Snettisham requires annual payments throughout the remaining period in an amount that approximates a 50-year mortgage.

Basis of Presentation

These combined statements have been prepared to report the financial position and results of operations of the APA as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of APA as required by the Chief Financial Officers Act of 1990 and in accordance with generally accepted accounting principles.

These statements are therefore different from the financial reports, also prepared by APA pursuant to OMB directives, that are used to monitor and control APA's use of budgetary resources.

Accounts are maintained in accordance with accounting principles and standards established by the uniform system of accounts prescribed for electric utilities by the Federal Energy Regulatory Commission, the Department of Energy of the United States, and requirements of specific legislation and executive directives issued by various Government agencies. APA's financial statements are generally presented in accordance with the provisions of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*. The provisions of Statement 71 require, among other things, that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

Utility Plant and Depreciation

Plant in service consists principally of generating and transmission facilities as follows:

	September 30, 1994	September 30, 1993
Generating facilities	\$ 154,814,014	\$ 154,065,869
Transmission facilities	<u>32,258,156</u>	<u>32,258,156</u>
	<u>\$ 187,072,170</u>	<u>\$ 186,324,025</u>

Plant in service is stated at original cost for property transferred from other Government agencies. Cost includes direct labor and materials, payments to contractors, indirect charges for engineering, supervision and similar overhead items, and allowance for funds used during construction. The costs of additions and betterments are capitalized. Repairs and maintenance are charged to operation and maintenance expense. Generally, the cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation when it is removed from service. Gains and losses are recognized only on sales of significant identifiable assets.

APA's method of computing depreciation of utility plant is the straight-line method based on the estimated service lives of the various classes of property. In accordance with DOE regulations, assets are not considered to be placed into service until the end of the fiscal period in which they become operational. Service lives currently average approximately 87 years for the Eklutna Project and 75 years for the Snettisham Project.

Unexpended Appropriations

Unexpended appropriations consist of cash balances with the U.S. Treasury which represent the unexpended balance of funds appropriated by Congress for construction, operation, and maintenance purposes.

Revenues

Operating revenues are recorded on the basis of service rendered and the applicable authorized rates. Rate schedules become effective upon confirmation and approval by the Federal Energy Regulatory Commission. Interim rates may be approved by the DOE Deputy Secretary. The rates are intended to provide sufficient revenues during the repayment period from which payments can be made to the U.S. Treasury in an amount equal to the gross investment for the U.S. Government. Differences exist between the length of the repayment period and the estimated service lives over which the assets are being depreciated; thus, annual depreciation charges are not matched with the recovery of the related capital costs and will, in the case of these projects, continue beyond the period within which such costs will have been recovered through revenues.

The Projects (Eklutna and Snettisham) have net billing arrangements with power purchasers which are offset against operation and maintenance expense and revenue. The net revenues received are returned to the U.S. Treasury. In fiscal year 1994, a structure on the Snettisham Transmission Line (12/2 Structure) had to be relocated which required an extended use of net billing which is described below by relationship, work description, and net billing details:

Relationship

Alaska Electric Light & Power (AEL&P) is both a customer of, and a contractor to APA. In the customer role, AEL&P buys wholesale electric power from APA and in turn, retails it to commercial and residential

customers. Eighty percent (80%) of Juneau's power needs are provided by APA.

Since December 1973, AEL&P has also been a contractor to APA to provide operators 24 hours a day, 365 days a year, for APA's Snettisham Project. In November of 1992, routine annual transmission line inspection and maintenance work were added to the contract. Both parts of the contract are firm fixed price. The maintenance portion of the contract also calls for non-scheduled transmission line work as requested by APA at contract established fixed rates. The 12/2 Structure relocation is being performed under the nonscheduled transmission line work part of the contract.

Work Description

The 12/2 Structure contract work consists of relocating of Structure 12/2 out of a new rock slide area and increasing the height of Structure 12/3 to accommodate the new conductor span. This task included some surveying, timber clearing, excavation of three tower foundations, excavation of 11 tower guy anchors, drilling five rock bolt type tower guy anchors, forming and pouring the three foundations and 11 anchors, back filling and compacting these, conducting required tests (concrete, compaction), de-energize the line, erect the new 12/2 Structure, modifying tower 12/3, remove existing 12/2 Structure, restring and tension the line, and re-energize the line. It is noted that all equipment, materials, and workers have to be flown to this remote site by various size helicopters.

Net Billing Details

APA pays for this contract work through our net billing authority. This is the same arrangement utilized by other Power Marketing Administrations. AEL&P bills APA for the cost of services performed under the contract on a monthly basis. APA bills AEL&P monthly for the costs of electric power delivered to AEL&P less any costs accumulated under the contract. An estimated amount of the contract costs is included in our annual Congressional appropriations testimony and budget submittals. If passed by Congress and signed into law, APA awards the contract. In the event such as 12/2 Structure relocation which costs are more than the amount reported to Congress for net billed contract

costs, OMB, the DOE's Comptroller and Chief Financial Officer, General Counsel and Congress are notified of the increase (See Administrator letters of August 17, 1994). In the 12/2 Structure case, it appears that the total fiscal year 1994 amount will be \$663,482 more than the \$518,000 approved by Congress for APA's fiscal year 1994 budget.

The revenue recognition policy followed by the Projects is in conformity with the accounting principles and standards established by the United States Department of Energy and the requirements of specific legislation and executive directives issued by Government agencies.

Interest on Federal Investment

Interest on Federal Investment is an imputed cost mandated by authorizing legislation for each project. APA computes interest in accordance with DOE Order RA 6120.2 which provides that interest be computed on the unamortized investment of the U.S. Government after revenues have been applied to recovery of costs during the year, any prior year unpaid costs, and then to Federal investment, bearing the highest interest rate first (see note 4).

Allowance for Funds Used During Construction

The practice of capitalizing allowance for funds used during construction (AFUDC) is followed for both generating and transmission facilities. Rates are set by law, administrative order, or administrative policy. Rates used for replacements are based upon the rates established for the fiscal year during which the construction commenced. The current replacement rates are 7.125% and 7.875% in 1994 and 1993, respectively.

Deferred Interest on Federal Investment

The initial ten-year repayment period for the Snettisham project began in 1976 during which time all unpaid interest on the Federal investment was deferred. In 1986, these costs were included in the total unpaid Federal investment for rate-making purposes and will be recovered through rates over a 50-year repayment period in accordance with the Water Resources Development Act of 1976 (WRDA). APA is amortizing the deferred interest ratably over a 45-year period using the straight-line method.

(2) Confirmation and Approval of New Rates

The rate schedules for the Eklutna Project were confirmed by Federal Energy Regulatory Commission on January 25, 1991, for the period October 1, 1990, through September 30, 1994.

The rate schedules for the Snettisham Project were confirmed by Federal Energy Regulatory Commission on December 23, 1991, for the period October 1, 1991, through September 30, 1996.

(3) Transfer of Crater Lake

The Crater Lake phase for the Snettisham Project was designed by the U.S. Army Corps of Engineers (Corps). The initial production testing of Crater Lake began in the fall of 1989; however, full production and project certification was not achieved until June 1991. Upon certification in fiscal year 1991, the Corps transferred the assets, at cost, to APA. Total construction costs transferred to utility plant in service were \$65,173,713 including capitalized AFUDC of approximately \$8,385,000. In fiscal year 1993, the Corps transferred an additional \$5,571,354 in construction costs as well as \$20,406 of capitalized AFUDC through the end of fiscal year 1992. APA then added \$167,753 of capitalized AFUDC for fiscal year 1993. The Corps transferred an additional \$503,071 including capitalized AFUDC of \$5,420 in fiscal year 1994. Upon ultimate completion of project administration, the Corps will formalize the transfer of all costs to APA through a transfer of title between government agencies as required under the enacting legislation and various governmental regulations.

The primary contractor brought various claims for relief against the Corps which related to costs incurred by the contractor as a result of delays in government furnished materials. Both parties reached a settlement in which approximately \$4,467,000 was paid by the Corps to the contractor in fiscal year 1992. The Corps has brought claims for relief against the secondary contractor related to delays caused by the contractor which, to some extent, resulted in the preceding settlement. The probability of obtaining favorable outcome and amount of such settlement cannot be estimated at this time. Upon final settlement of claims against the secondary contractor, the Corps will transfer the net costs of the settlement to APA, resulting in a decrease in utility plant in service.

In accordance with DOE regulations, assets are not considered to be placed into service until the end of the fiscal period in which they become operational. As such, depreciation of the Crater Lake phase began in fiscal year 1992. The repayment period for the Crater Lake phase will be 50 years.

(4) Investment of U.S. Government

Construction and operation of the Project's transmission system, generating plants, and operations are financed, in whole or in part, through congressional appropriations. The U.S. Government's investment in each project, including the original construction costs and annual operating expenses, is required to be repaid to the U.S. Treasury within the repayment period. At Eklutna, annual revenues are first applied to the current year operating expenses (less depreciation) and interest expense. All annual amounts for such expenses have been paid for fiscal years 1994 and 1993. At Snettisham, annual revenues are first applied to the required Long Lake principal payment to comply with the water Resources Development Act of 1976. Remaining revenues are applied to current year operating expenses and interest expenses. All annual amounts for the required payment and operating expenses have been paid for fiscal years 1994 and 1993, however, APA could not make complete project interest payments in fiscal years 1994 and 1993. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by repayment of the highest interest-bearing investment first.

(5) Congressional Appropriations

Congressional appropriations received by APA are allocated to the individual projects at management's discretion. Certain allocations are made for contingencies which are prorated for the benefit of the two projects. Expended funds from these divisions are transferred to the appropriate project at year end. To the extent these costs were incurred for the benefit of both projects, they are allocated equally. It is the intent of APA management to distribute congressional appropriations in amounts approximating estimated current year expenditures and to adjust the distribution as necessary within the limits of the transfer authority residing with APA officials.

(6) Retirement Plan

The majority of APA employees participate in the Civil Service Retirement System (CSRS) to which the DOE makes matching contributions equal to 7% of pay. Except as discussed below, APA does not report CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management. In fiscal year 1991, APA began recognizing retirement benefit expense of approximately 14% of eligible employee compensation for the estimated costs of employee participation in the CSRS not paid by DOE, APA, or employees. These costs are being recovered through rates and returned to the U.S. Treasury. As a result, a portion of funds returned to the U.S. Treasury represents funding of this CSRS liability. APA has accounted for the prior unfunded costs of CSRS in fiscal year 1993. Total expense for this cost was \$99,251 in 1994.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to APA employees which automatically contributes 1% of pay and matches any employee contribution up to an additional 4% of pay. For most employees hired since December 31, 1983, APA also contributes the employer's matching share for Social Security.

ALASKA POWER ADMINISTRATION
Combining Information: Assets, Federal Investment and Liabilities
As of September 30, 1994 and 1993

Assets	Combined Totals		1994		1993	
	1994	1993	Excluding	Including	Excluding	Including
Utility Plant (notes 3 and 4):						
Plant in Service	\$ 187,072,170	186,324,025	34,509,817	152,562,353	34,394,107	151,929,918
Accumulated Depreciation	(36,133,848)	(33,695,246)	(13,465,777)	(22,668,071)	(13,070,599)	(20,624,647)
Construction in Process	820,054	0	0	820,054	0	0
Net Utility Plant	<u>151,758,376</u>	<u>152,628,779</u>	<u>21,044,040</u>	<u>130,714,336</u>	<u>21,323,508</u>	<u>131,305,271</u>
Current Assets:						
Unexpended Appropriations	1,034,335	1,210,844	1,266,651	567,684	690,181	520,663
Accounts Receivable	365,313	841,111	277,717	87,596	318,160	522,951
Imprest Fund	<u>7,000</u>	<u>7,000</u>	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
Total Current Assets	2,206,648	2,058,955	1,547,868	658,780	1,011,841	1,047,114
Deferred Interest on Federal Investment, Net of Accumulated Amortization	<u>17,560,521</u>	<u>17,988,826</u>	<u>0</u>	<u>17,560,521</u>	<u>0</u>	<u>17,988,826</u>
Total Assets	<u>\$ 171,525,545</u>	<u>172,676,560</u>	<u>22,591,908</u>	<u>148,933,637</u>	<u>22,335,349</u>	<u>150,341,211</u>
<u>Federal Investment and Liabilities</u>						
Federal Investment:						
Investment of U.S. Government (note 4)						
Accumulated Congressional Appropriations	\$ 86,519,638	82,523,388	61,868,080	24,651,558	59,862,760	22,660,628
Interest During Construction	11,066,095	11,051,497	1,909,047	9,157,048	1,909,047	9,142,450
Transfers from other Federal Agencies	141,460,346	140,942,183	(1,497,650)	142,957,996	(1,497,650)	142,439,833
Interest on Federal Investment	<u>76,746,734</u>	<u>71,887,329</u>	<u>20,378,109</u>	<u>56,368,625</u>	<u>20,206,317</u>	<u>51,681,012</u>
Gross Investment of U.S. Government	<u>315,792,813</u>	<u>306,404,397</u>	<u>82,657,586</u>	<u>233,135,227</u>	<u>80,480,474</u>	<u>225,923,923</u>
Funds Returned to U.S. Treasury	(148,222,934)	(138,730,764)	(75,127,352)	(73,095,582)	(72,328,980)	(66,401,784)
Less Funds Related to CSRS (note 6)	<u>494,778</u>	<u>395,527</u>	<u>258,431</u>	<u>236,347</u>	<u>203,630</u>	<u>191,897</u>
	<u>(147,728,156)</u>	<u>(138,335,237)</u>	<u>(74,868,921)</u>	<u>(72,859,235)</u>	<u>(72,125,350)</u>	<u>(66,209,887)</u>
Net Investment of U.S. Government	168,064,657	168,069,160	7,788,665	160,275,992	8,355,124	159,714,036
Adjustment	(427)	0	0	(427)	0	0
Accumulated Net Revenues	<u>3,231,534</u>	<u>4,410,765</u>	<u>14,620,646</u>	<u>(11,459,112)</u>	<u>13,873,516</u>	<u>(9,462,751)</u>
Total Federal Investment	171,295,764	172,479,925	22,479,311	148,816,453	22,228,640	150,251,285
Current Liabilities: Accounts Payable and Accrued Liabilities	<u>229,781</u>	<u>196,635</u>	<u>112,597</u>	<u>117,184</u>	<u>106,702</u>	<u>82,926</u>
Total Federal Investment and Liabilities	<u>\$ 171,525,545</u>	<u>172,676,560</u>	<u>22,591,908</u>	<u>148,933,637</u>	<u>22,335,349</u>	<u>150,341,211</u>

The accompanying notes to the combined statements are an integral part of these combining statements.

ALASKA POWER ADMINISTRATION
Combining Information - Statement of Operations and Changes in Net Position
For the Years ending September 30, 1994 and 1993

	<u>Combined Totals</u>		<u>1994</u>		<u>1993</u>	
	<u>1994</u>	<u>1993</u>	<u>Eklutna</u>	<u>Snettisham</u>	<u>Eklutna</u>	<u>Snettisham</u>
Revenues (note 2):						
Sales of Electric Power:						
Municipalities	\$ 1,456,336	1,500,307	1,456,336	0	1,500,307	0
Rural Cooperatives	1,288,507	1,313,881	1,288,507	0	1,313,881	0
Privately Owned Utilities	7,261,350	7,265,065	0	7,261,350	0	7,265,065
Other	91,091	58,413	1,654	89,437	1,518	56,895
Wheeling	89,060	88,782	89,060	0	88,782	0
Other Operating Revenues	19,571	23,030	0	19,571	1,328	21,702
Total Revenues	<u>10,203,915</u>	<u>10,249,478</u>	<u>2,835,557</u>	<u>7,370,358</u>	<u>2,905,816</u>	<u>7,343,662</u>
Expenses (note 4):						
Operations and Maintenance	3,647,553	3,715,024	1,438,681	2,208,872	1,534,304	2,180,720
Depreciation & Amortization	2,866,907	2,873,407	395,178	2,471,729	393,098	2,480,309
Annual Leave Adjustment	<u>17,751</u>	<u>(54,210)</u>	<u>9,658</u>	<u>8,093</u>	<u>(31,437)</u>	<u>(22,573)</u>
Total Expenses before Adjustments and Interest	6,532,211	6,534,221	1,843,517	4,688,694	1,895,765	4,638,456
Adjustments	<u>(6,170)</u>	<u>277,426</u>	<u>4,737</u>	<u>(10,907)</u>	<u>277,426</u>	<u>0</u>
Net Revenues before Interest Expense	<u>3,679,874</u>	<u>3,437,831</u>	<u>987,303</u>	<u>2,692,571</u>	<u>732,625</u>	<u>2,705,206</u>
Interest Expense						
Interest on Federal Investment	<u>4,859,105</u>	<u>4,816,707</u>	<u>170,174</u>	<u>4,688,931</u>	<u>216,824</u>	<u>4,599,883</u>
Net Revenues (Expenses)	<u>\$ (1,179,231)</u>	<u>(1,378,876)</u>	<u>817,129</u>	<u>(1,996,360)</u>	<u>515,801</u>	<u>(1,894,677)</u>
Net Position, Beginning Balance	\$ 4,410,765	5,789,641	13,873,516	(9,462,751)	13,357,715	(7,568,074)
Excess (shortage) of Revenues Over Total Expenses	<u>(1,179,231)</u>	<u>(1,378,876)</u>	<u>817,129</u>	<u>(1,996,360)</u>	<u>515,801</u>	<u>(1,894,677)</u>
Net Position, Ending Balance	<u>\$ 3,231,534</u>	<u>4,410,765</u>	<u>14,690,645</u>	<u>(11,459,111)</u>	<u>13,873,516</u>	<u>(9,462,751)</u>

The accompanying notes to the combined statements are an integral part of these combining statements.

ALASKA POWER ADMINISTRATION
Combining Information - Statement of Cash Flow
For the Years Ended September 30, 1994 and 1993

	Combined Totals		1994		1993	
	1994	1993	Eklutna	Snettiahem	Eklutna	Snettiahem
Funds Provided by Operating Activities:						
Funds Received From Customers	\$10,695,734	10,739,147	2,879,128	7,816,606	3,006,096	7,733,051
Funds Paid for Operations and Maintenance	<u>(3,639,287)</u>	<u>(4,156,628)</u>	<u>(1,439,948)</u>	<u>(2,199,339)</u>	<u>(1,866,899)</u>	<u>(2,289,729)</u>
Net Funds Provided by Operating Activities	<u>7,056,447</u>	<u>6,582,519</u>	<u>1,439,180</u>	<u>5,617,267</u>	<u>1,139,197</u>	<u>5,443,322</u>
Funds Used In Investing Activities:						
Plant Additions	(1,568,199)	(5,807,482)	(115,710)	(1,452,489)	(32,462)	(5,775,020)
Plant Retirements	<u>0</u>	<u>277,426</u>	<u>0</u>	<u>0</u>	<u>277,426</u>	<u>0</u>
Net Funds Provided by (Used In) Investing Activities	<u>(1,568,199)</u>	<u>(5,530,056)</u>	<u>(115,710)</u>	<u>(1,452,489)</u>	<u>244,964</u>	<u>(5,775,020)</u>
Funds Provided by Financing Activities:						
Funds Returned to U.S. Treasury	(9,492,170)	(10,294,999)	(2,798,372)	(6,693,798)	(3,006,060)	(7,288,939)
Congressional Appropriations	4,010,000	3,689,514	2,003,987	2,006,013	1,770,465	1,919,049
Imprest Fund	0	(7,000)	0	0	(3,500)	(3,500)
Transfers To/From Other Agencies	<u>617,413</u>	<u>5,871,066</u>	<u>54,800</u>	<u>562,413</u>	<u>84,782</u>	<u>5,806,284</u>
Net Funds Provided by (Used In) Financing Activities	<u>(4,864,757)</u>	<u>(741,419)</u>	<u>(739,585)</u>	<u>(4,125,172)</u>	<u>(1,174,313)</u>	<u>432,894</u>
Net Increase (Decrease) in Funds	623,491	311,044	583,885	39,606	209,848	101,196
Fund Balance, Beginning of Year	<u>1,210,844</u>	<u>899,800</u>	<u>690,181</u>	<u>520,663</u>	<u>480,333</u>	<u>419,467</u>
Fund Balance, End of Year	<u>\$ 1,834,335</u>	<u>1,210,844</u>	<u>1,274,066</u>	<u>560,269</u>	<u>690,181</u>	<u>520,663</u>
Reconciliation of Net Revenues (Expenses) to Funds Provided by Operating Activities:						
Net Revenue (Loss)	\$(1,179,231)	(1,378,876)	817,130	(1,996,361)	515,801	(1,894,477)
Interest on Federal Investment	4,859,105	4,816,707	170,174	4,688,931	216,824	4,599,883
Depreciation & Amortization	2,866,907	2,873,407	395,178	2,471,729	393,098	2,480,309
Decrease in Accounts Receivable	468,124	489,669	32,723	435,401	100,280	389,389
Other Adjustments and Employee Advances	15,127	0	15,385	(258)	0	0
Increase (Decrease) in Accounts Payable	<u>26,415</u>	<u>(218,388)</u>	<u>8,590</u>	<u>17,825</u>	<u>(86,806)</u>	<u>(131,582)</u>
Net Funds Provided by Operating Activities	<u>\$ 7,056,447</u>	<u>6,582,519</u>	<u>1,439,180</u>	<u>5,617,267</u>	<u>1,139,197</u>	<u>5,443,322</u>

The accompanying notes to the combined statements are an integral part of these combining statements.

PART II
Report on Internal Controls

We have audited the combined statements of the Alaska Power Administration (APA) for the year ended September 30, 1994, and have issued our report thereon dated December 9, 1994.

We conducted our audit in accordance with generally accepted *Government Auditing Standards*, (1988 version) issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined statements are free of material misstatements.

In planning and performing our audit of the combined statements of APA for the year ended September 30, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and to determine whether the internal control structure meets the objectives identified in the following paragraph. Our consideration included obtaining an understanding of the internal control policies and procedures and assessing the level of internal control risk relevant to (1) all significant cycles, classes of transactions, or account balances; and (2) the performance information control objective described in the following paragraph.

Management of APA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that transactions, including those relating to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the financial statements; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and transactions are properly recorded and accounted for to permit the preparation of accounts and reliable financial and complete performance information reports in accordance with generally accepted accounting principles to maintain accountability over assets.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the

structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- o Revenue cycle-power billings/receivables
- o Expenditures cycle-purchases/payables
- o Payroll cycle
- o General ledger and external financial reporting cycle
- o Budgetary cycle
- o Administrative controls over compliance with laws and regulations

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they had been placed in operation, assessed control risk, and performed tests of the control structure.

Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objective, we obtained an understanding of relevant internal control structure policies and procedures designed to permit the preparation of reliable and complete performance information, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. Therefore, we believe there is reasonable assurance that the internal control objectives were achieved.

We noted matters involving APA's internal control structure and its operations that we have reported to the management of APA in a separate letter dated February 1, 1995.

December 9, 1994

Office of Inspector General

PART III

Report on Compliance with Laws and Regulations

We have audited the combined statements of the Alaska Power Administration (APA) as of September 30, 1994, and have issued our report thereon dated December 9, 1994.

We conducted our audit in accordance with generally accepted *Government Auditing Standards*, (1988 version) issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined statements are free of material misstatements.

Compliance with laws and regulations applicable to APA is the responsibility of APA management. As part of obtaining reasonable assurance about whether the combined statements are free of material misstatement, we tested compliance with laws and regulations designated by OMB and APA as listed below:

- o Eklutna Project Act of 1950, as amended
- o 1962 Flood Control Act, as amended
(Section 204)
- o Water Resources Development Act of 1976
(Section 201)
- o DOE Order RA6120.2-Power Marketing
Administration Financial Reporting
- o 10 CFR 903-Power and Transmission Rates
- o Chief Financial Officers Act of 1990

However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such laws and regulations. Accordingly, we do not express such an opinion.

As part of our audit, we also obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA) and compared APA's most recent FMFIA reports with the evaluation we conducted of the entity's internal control system.

The results of our tests of compliance indicate that, with respect to the items tested, APA complied, in all material respects, with the provisions referred to in the third paragraph in this report. With respect to items not tested, nothing came

to our attention that caused us to believe that APA had not complied, in all material respects, with those provisions.

December 9, 1994

Agnes R. Smith-Lewis
Office of Inspector General

Department of Energy

Office of Inspector General
Western Regional Audit Office
P. O. Box 5400
Albuquerque, New Mexico 87185-5400
FTS or (505) 845-5554

February 1, 1995

Michael A. Deihl, Administrator
Alaska Power Administration
United States Department of Energy

Dear Mr. Deihl:

We have audited the combined statements of the Alaska Power Administration (APA) for the year ended September 30, 1994. In planning and performing our audit of the combined statements of APA, we considered the internal control structure in order to determine the auditing procedures for the purpose of expressing an opinion on the combined statements and not to provide assurance on the internal control structure. Our consideration of APA's internal control structure was more limited than would be necessary to express an opinion on the system of internal control taken as a whole. Accordingly, we express no opinion on the system of internal accounting controls taken as a whole.

During our audit, we noted several matters involving the internal control structure that are presented for your consideration. These recommendations, which are intended to improve the internal control structure and operating efficiencies, are summarized below.

1. Preparation of Financial Statements/Notes to Statements

Auditor Comment

Generally accepted auditing standards require that the financial statements, including related notes to the statements, are the responsibility of APA management. The fair presentation of the financial statements, in conformity with generally accepted accounting principles, is an implicit and integral part of management's responsibility. The auditor may make suggestions about the form and content of the financial statements and notes based on information from management. However, the auditor's responsibility for the financial statements under audit is confined to the expression of an opinion on the statements.

Recommendation

Prepare and provide a full set of financial statements, including notes to the statements, for FY 1995 auditors.

Management Comment

APA will be more prepared for the FY 1995 financial statement audit.

2. Accrual of Liabilities

Auditor Comment

If a service is received but not paid for, a liability should be recognized. Accrued liabilities are estimated unpaid obligations for services or benefits that have been received prior to the balance sheet date. Accrued liabilities must be included in the balance sheet. APA, however, recognized some of its liabilities based on invoice receipt date. Therefore, APA had \$57,000 in unaccrued liabilities as of the balance sheet date. We discussed the accrual of yearend liabilities with APA management and the required adjustments were made to the 1994 financial statements.

Recommendation

Recognize liabilities when services are received.

Management Comment

APA will recognize liabilities when services are received if the service is not yet paid for.

3. Payroll Review

Auditor Comment

Payroll transactions should be properly authorized, recorded, and reviewed. Employee time sheets need closer review by APA supervisors. An APA employee worked as a lead person but was paid as if the employee worked as a lead person and an overtime duty person. As a result, the employee was overpaid approximately \$1600 over four pay periods. Also, the same employee was underpaid a total of \$125 over two pay periods. The employee was paid at the regular pay rate when the employee actually worked as a lead person.

Recommendation

APA supervisors should verify that employee duties actually worked correspond with duties reported on time sheets. In addition, an internal detailed time sheet may be useful to help employees and supervisors distinguish between lead, regular duty, and overtime hours worked.

Management Comment

APA restructured the payroll process to ensure that instances of overpayment and underpayment do not occur in the future.

4. Automated Financial System Rounding

Auditor Comment

Generally accepted accounting principles require that financial statements balance. APA's preliminary financial statements did not balance in FY 1993 or FY 1994. This occurred because APA uses several different computer programs to account for its operations and each program has different rounding methods. When information from each of the different programs is combined for financial statement purposes, the financial statements do not balance. While the rounding differences are immaterial, the financial statements need to balance for presentation and reporting purposes.

Recommendation

Ensure that consistent rounding methods are used in APA's automated financial systems so that yearend financial statements balance.

Management Comment

APA will investigate the possibility of changing its systems to remove rounding discrepancies.

If you have any questions on these issues we are available to talk with you at anytime.

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